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IN THE
Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

PETITION FOR REHEARING

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PETITION FOR REHEARING

Respondent Thys Company respectfully petitions for a rehearing and a reconsideration of this case by this Court. That the legal questions argued and decided herein are extremely important is obvious. Aside from *Hazeltine*, this is the first decision of these important legal issues by this Court in an action to recover on a patent royalty contract.

With all due respect to the eminent author of the Court's opinion and the concurring Justices, we sincerely believe and respectfully submit that further consideration by this Court of these very important questions is extremely appropriate.

1. We earnestly request reconsideration in the light of Justice Harlan's dissenting opinion. We submit that the logic of this opinion is entirely sound and the reasoning is completely irrefutable.
2. The majority opinion (p. 1, 3) emphasizes certain restrictions in the royalty contracts and states that they "prevent assignment of the machines or their removal from Yakima County" either before or after the patent expirations, and that this indicates illegality. However, the language of the contracts in this respect merely is:

"Second Party shall not assign this agreement nor any interest therein . . . nor permit said machine(s) to be removed from Yakima County . . . *without the prior written consent of First Party (Thys). First Party shall not unreasonably withhold such consent.*" (Ex. 1, 3, par. 20; R. 73. All emphasis herein is supplied.)

Respondent has never refused consent to do so, and no contention has ever been made that it has. Consequently these are not practical nor preventive restrictions at all. Manifestly the reason for this provision merely was so that respondent would remain informed as to the location of the machines and the identity of the persons by whom the royalties would be payable. Certainly this customary routine cautionary procedure should not rightly be held to taint the contracts in whole or in part with illegality.

3. Again the majority opinion states (p. 3) "the purchase price in each case was a flat sum, *the annual payments not being part of the purchase price* but royalties for use of the machine during that year." It is true that the contracts referred to them as royalties, but the applicable local State contract law as to these same contracts was clearly stated in *Thys v. State of Washington*, 31 Wn. 2d 739, 759, 764, 199 P. 2d 68, certiorari denied 337 U.S. 917;

"Under the circumstances here shown, the so-called "royalties," in so far as the payment of five hundred dollars a year are concerned, are, in effect, a part of the cost of the machine and of the right to use the same to the purchaser. The minimum payment of five hundred dollars a year (or some other sum) required in any event is, in effect, a payment simply for the right to use the machine and is not based upon any actual use thereof, which right, joined with ownership, results in a complete, untruncated title to own and use the machine. . . ."

"We hold that, under the contracts whereby respondents sold the hop-picking machines within this state, the so-called "royalties" (referring to the payments of five hundred dollars a year, regardless of the use or nonuse of the machine) are, for the purposes of the statutes of this state providing for the payment of a sales tax, *part of the selling price of the machine* and taxable as such, . . . The same is true if respondents are, within this state, engaged in business as a manufacturer, the so-called "royalties" being a *portion of the true sale price of the hop-picking machines.*"

4. Moreover in any event the rule contended for by petitioners would not be applicable under the undisputed facts of this case. It is true that 7 of the 12 Thys patents originally listed by number and issued prior to the execution of these contracts, were incorporated in these machines. However the contracts also licensed "Other Patents Pending". (Ex. 1, 3; R. 71) It is undisputed that 4 other Thys patent applications were then pending on which patents were subsequently issued. These were Ex. 22, No. 2,559,080 issued on June 3, 1952; Ex. 23, No. 2,448,063 issued on August 31, 1948; Ex. 24, No. 2,620,064 issued on December 2, 1952; and Ex. 25, No. 2,647,626 applied for January 26, 1951 and issued on August 4, 1953. In addition thereto 3 other patents on hop-picking machines and accessories and improvements thereto were

subsequently applied for and issued to respondent. These included, among others, Ex. 26, No. 2,764,163 issued on September 25, 1956. Of course *none of these subsequently issued patents has yet expired*, and all of them still remain in full force and effect. All of these subsequently issued patents were incorporated in petitioners' and other similar machines *or were readily available and suitable for that purpose as accessories, replacement parts, and improvements thereof.* (Ex. 22-26; R. 47-52, 56-64, 68, 69).

Of these patents Ex. 22 was for replacement of improved picking finger bars on these machines, which are parts which frequently require replacement. As to this, Thys' testimony is undisputed:

"Every year there were some bars that were replaced and they were supplied as a replacement. . . . Any owner . . . could obtain these fingers and put them on the hop-picking machine. . . . Parts for hop-picking machines were for sale in the Yakima area."

Ex. 23 "is the assembly of the picking fingers. . . . It covers the shape of the fingers and they — the way that they are assembled on an angle bar which is specially built to receive the fingers and secure them." (R. 60, 61) Ex. 24:

"Later modifications were made and it was adaptable to a portable machine". (R. 62)

Thys testified that Ex. 25:

"Is especially designed to remove stems from hops after all other cleaning operations have been accomplished, it removes the stems, and it is applicable to a portable machine, and it was made available to the users of all of the portable hop-picking machines. . . . It is incorporated in the portable machine . . . It is an improvement. . . . It produces cleaner hops by removing the last stems. . . . It is readily practicable to add these features to these machines." (R. 62, 63)

With reference to these subsequent patents and the petitioners' machines, "*they could have been incorporated and they probably were.*" (R. 69) Admittedly neither petitioner testified to the contrary.

5. The majority opinion (p. 3) apparently recognizes that unpatented machines may be lawfully sold "on long term payments based on a deferred purchase price or on use". However, an unpatented machine is in the public domain for precisely the same reason as is a machine covered by an expired patent, namely that neither one is presently covered by an existing patent, and each is therefore in the public domain.

As stated by this Court in *Sears Roebuck and Co. v. Stiffel Co.*, 376 U. S. 225:

"An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so."

We therefore submit that the same rule of legality should apply to a contract providing for payment for the right to use a machine covered by an expired patent, especially when previously entered into, as is applied to an unpatented machine.

6. The majority opinion states (p. 4) that this Court's leading decision in *Automatic Radio Co. v. Hazeltine*, 339 U. S. 827, that that contract providing for royalties "based on the licensee's sales, *even when no patents were used*" was lawful as "a convenient and reasonable device" — a decision which at all times thereafter has been uniformly relied upon by the patent licensing profession — is not in point (1) because "the royalties claimed were not for a period when *all of them* had expired." However as we have seen, the situation in this respect in this case was precisely the same. When these contracts terminated, several of these Thys patents *had not yet expired*.

A second asserted distinction is that *Hazeltine* "exacte

royalties for patents never used. . . . The present licensees are farmers using the machines." However petitioner Charvet admitted that *he never used this machine at all during any of the years in question, namely 1953 through 1960. He testified "the last time that machine was used to harvest hops . . . was the fall of 1952 in September."* (R. 35) Admittedly neither petitioner paid any royalties for any year subsequent to 1952. This of course was long prior to the expiration of most of these patents. During several of these years Charvet ceased raising hops and during the other years he deliberately hired a competitive stationary machine. (R. 33-36)

Certainly therefore if as held by this Court it was lawful for Hazeltine to collect "royalties for patents never used", namely for the right to use the same; the same should be lawful for Thys.

Under paragraph 8 of these contracts the \$500.00 annual minimum royalty was payable "*in any event*" entirely irrespective of the extent of use and irrespective of whether or not the machine was used at all. (Ex. 1, 3, R. 71)

7. Furthermore in any event even if this Court were to adhere to its decision that royalties based on the extent of use subsequent to patent expirations should be to that extent "unenforceable", we earnestly urge that this should not be applicable to \$500 minimum royalties accruing during the post-expiration period, because as hereinabove shown, use, nonuse, or the extent of use has nothing whatever to do with the obligation to pay these minimum royalties. And Thys recovered nothing whatever in excess of the said minimum royalties for any year subsequent to 1956 when numerous Thys patents were still in effect. (R. 97-104) Consequently irrespective of the rule of this Court for future guidance, the judgments against petitioners herein are not erroneous and should be affirmed.

As admirably and cogently stated by Justice Harlan (p. 4):

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"Furthermore, since the judgments against petitioners were based almost entirely on defaults in paying the \$500 minimums and not on failures to pay for above-minimum use, any such distinction of extended use payments and extended installments, even if accepted, *would not justify eradicating all petitioners' obligations beyond the patent term, but only those based on use above the stated minimums; for the minimums by themselves, being payable whether or not a machine has been used, are precisely identical in substantive economic effect to flat installments.*"

8. Thys has never had a monopoly of hop-picking machines. This Court has not found any antitrust law violation. Thys has never interfered with the use of any patented invention when in the public domain subsequent to patent expiration. Thys has not unlawfully extended its "monopoly" after patent expirations. Respondent has merely sought enforcement of contracts voluntarily entered into by competent parties, without coercion and with full knowledge of the facts, long before expiration of any of the patents, which spread the agreed compensation of the inventor over a reasonable and convenient period of years extending past the expiration dates of some of the patents. Freedom of contract in this respect is for the public interest and for the benefit of small farmers who need assistance in financing their mechanization.

The "continuation of the patent monopoly" after patent expiration which was condemned in *Scott Paper Co. v. Marcalus Co.*, 326 U. S. 249, 256, a patent injunction suit, related to an actual interference by injunction with the use of the patented invention thereafter. The holding there was that the patent laws do not permit anyone to "withhold from the public the use of an invention" in the public domain. However, there has been no such attempted interference, injunction or withholding by Thys.

Since an agreement for \$8 500 total royalty payable \$500 per year for 17 years, or an agreed royalty base including

sales of unpatented and expired patented articles, would certainly be lawful, we submit that in essence this arrangement was substantially the same and should be likewise lawful. The contracts are presumed to be lawful and should be so construed if reasonably possible. In essence this is voluntarily agreed partially deferred compensation for benefits previously received, such as retirement pensions, namely for the use or right to use patented inventions during the terms of the patents, and certainly this should be lawful.

Here there was no agreement not to use an expired patent invention. There was merely an agreement to pay money in a manner that was not an excessive financial burden, as compensation for previous benefits. Thys was not attempting to burden or control any post-expiration activities, but was merely establishing a voluntary fair method of receiving the inventor's reward. If it is lawful to agree to make lump sum payments spread over this period, it should certainly be lawful to have a voluntary sliding scale based upon extent of use of the apparatus in order that the licensee may make the payments out of proceeds and benefits from its use. This is actually for the benefit of the licensee and is certainly not against public policy.

We therefore again respectfully urge that since this was lawful for Hazeltine in 1950, it should be lawful for Thys in 1964.

PETITION FOR CLARIFICATION

9. In any event if these judgments be not affirmed, we respectfully request and petition for a clarification of this Court's decision.

The majority opinion stated (p. 2) its final and ultimate conclusion of the case as follows:

"We conclude that the judgment below must be reversed *INSOFAR AS* it allows royalties to be collected

which accrued after the last of the patents incorporated into the machines had expired."

The Court's closing conclusion (p. 5) was:

"The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain. We share the views of the Court of Appeals in *Ar-tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F. 2d 496, 510, that after expiration of the last of the patents incorporated in the machines "the grant of patent monopoly was spent" and that *an attempt to project it into another term by continuation of the licensing agreement is unenforceable.*"

As hereinabove stated we submit that where as in this case royalties are agreed to be payable *for the right to use* certain patented inventions, including subsequent improvements, replacement parts, accessories, and additions to the machines, the right to collect should not terminate in any event prior to the expiration of the last of the patents, irrespective of whether or not they were actually used and incorporated into the machines.

In any event frankly this seems to us quite clear and definite that "*insofar as*" means "*insofar as*", and consequently, by clear implication at least, Thys is entitled to recover all royalties which accrued prior to the expiration of the last of the patents.

The majority decision held respondent's claim was "unenforceable" in so far as post-expiration royalties accrued. Nowhere, however, did this decision hold, (as contended by petitioners) that there was such a flagrant misuse of patents by Thys as to invoke the doctrine of "unclean hands" and preclude recovery of any royalties whatever on these contracts in this action at law, which is not an equity injunction suit. And clearly such a holding would be completely erroneous, inequitable and unjust.

We are informed, however, that petitioners refuse to accept this supposedly clear interpretation of the decision. Frankly we would dislike very much to have them bring us to this Court again for further enlightenment on that very important phase of the case. We therefore urge that if further light for their eyes be needed, "let there be light" here and now.

Consequently for the foregoing reasons respondent respectfully petitions for a rehearing and reconsideration of this case by this Court, or in any event for a clarification of the decision in the respect hereinabove stated.

Respectfully submitted,

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ELWOOD HUTCHESON
Attorneys for Respondent

CERTIFICATE

I, ELWOOD HUTCHESON, one of the attorneys for respondent, hereby certify that the foregoing Petition for Rehearing is presented in good faith and not for delay.

ELWOOD HUTCHESON